



Tennessee Housing JOURNAL

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Housing Agencies Celebrates "Victory" with Cap Increase

In December of last year, the Tennessee Housing Development Agency (THDA) joined the National Council of State Housing Agencies (NCSHA), and other State Agencies across the nation, celebrating the enacting of a cap increase. The bond cap limits the amount of tax-exempt bonds that can be issued in a state for private activity purposes. This was done along with an increase in the Low-Income Housing Tax Credit program resulting in the most significant federal subsidy for the development of affordable rental housing since 1986.

What does this mean for Tennessee? The amount of tax-exempt private activity bonds which can be issued will increase from about \$274 million in 2000 to about \$342.7 million in 2001. The limit will be raised again to about \$411.3 million in 2002. Tennessee uses private activity bonds to stimulate economic growth, student loans, and to provide affordable housing. THDA uses tax-exempt mortgage revenue bonds (MRBs) to finance lower than market rate mortgages for first-time homebuyers with low to moderate incomes and for the construction of apartments affordable to renters with lower incomes.

Each year the state develops an "Allocation Plan for Bond Authority in Tennessee." The allocations are prioritized among state projects, housing, student loans and small issue bonds. Last year in January THDA received \$75 million in Bond Authority and at year-end another allocation of \$79 million (not a guaranteed allocation). Because of the volume cap increase the state has received an additional \$81 million to be allocated by the Department of Economic and Community Development.

"This Bond Cap increase can help us serve more families who need the low interest rate mortgages that THDA provides. Without this increase in authority, increased housing costs mean that we would be able to help fewer and fewer families find an affordable home to buy," said Janice Myrick, Executive Director of THDA. "The increase is long overdue and will help restore the

purchasing power the bond cap has lost to inflation since it was imposed in 1986."

The Low-Income Housing Tax Credit allocation will increase from about \$ 6.8 million in 2000 to about \$ 8.2 million in 2001. The limit will increase again in 2002 to about \$ 9.6 million. The housing tax credit program, administered by THDA, uses private capital to help construct or rehabilitate affordable housing for Tennesseans. The demand for housing tax credits has far exceeded the amount available in Tennessee over the past several years.



NCSHA, working with state housing agencies like THDA, played an active role in convincing Congress of the need for the bond cap and tax credit increases. "We appreciate the efforts of Governor Sundquist and the support of all of the Tennessee Congressional delegation in making the increases a reality," said David Hayes of Jefferson City, Chair of THDA.

What's Next?

THDA will be attending the 2001 Legislative conference in Washington D. C. with three new agenda items: the Ten-Year Rule, Purchase Price Limits and Housing Credit in Rural Areas.

The current problem is that even with the long overdue cap increases; many people qualified to receive help under our current programs cannot get it because of a few obsolete program provisions enacted before 1989. More opportunity to serve Tennesseans will become available if we amend these programs and bring them up to date.

The Ten-Year Rule. THDA would like to see this rule repealed, reversing the provision made to the MRB program in 1988, which prevents states from using home

(continued on page 4)

The Grants Forum at THDA

Hosanna in the Highest



Pictured above is Phase I of Hosanna, built in 1995.

The Tennessee Housing Development Agency (THDA) assists each year in funding several non-profit organizations across the state. Hosanna, nestled in wooded community in Chattanooga, is a success story held in the highest esteem.

Like most non-profit organizations, Hosanna was born out of a mother's need and desire for her child. Catherine Brown had a physically disabled adult son, whom she wanted to have the opportunity to live independently in a family atmosphere--not institutionalized.

In 1994, THDA awarded a \$250,000 HOUSE Grant to Hosanna that created just what Catherine was searching for, an atmosphere of opportunity, individuality and hope to adults who are physically disabled usually wheelchair dependant and possessing smart minds and strong spirits.

"It has been with the support of the church, the community and THDA that in 1995, Phase I of Hosanna has come to fruition," said Molly Miles. "It is our goal to build three phases and thanks to prayer, private funding and a \$200,000 grant that THDA awarded us through the HOUSE Program, Phase II is now under construction."

Hosanna is an entirely different answer to one of the most difficult problems facing persons in need of disabled housing. The Metropolitan Council of Greater Chattanooga identified about 6,000 handicapped residents in the Chattanooga area alone. Hosanna is the only organization in the eastern region to offer the physically disabled an alternative group living situation.

"Because of the unique nature of Hosanna, residents that are unable to pay all of their expenses can apply for scholarship funds," said Teresa Dampier, Executive Director of Hosanna. "The scholarship funds are private donations made by the citizens of Chattanooga to Hosanna and used to ease some of the cost that can be a burden to residents who are unable to work or without family support."

(continued on page 6)

What living at Hosanna means to me...



Pictured above Phase II of Hosanna under construction.



Connor Roberts

"Hosanna means hope, opportunity and independence to me. There are too many negatives in life, here I can focus on all the positive things that life offers."



Sarah Gussow

"I love living at Hosanna. Along with personal goals that I have achieved, there is a sense of belonging and family here. Companionship is another plus. Living alone one might not have that so readily available."

IN THE SPOTLIGHT...

Inside THDA's



THDA's Multifamily & Special Programs Division: Left to Right : Ed Yandell, Senior Multifamily Specialist; Phyllis Vaughn, Director; Judith Smith, Multifamily Specialist; Bob Goodall, Multifamily specialist.

Multifamily & Special Programs Division

The Tennessee Housing Development Agency (THDA) is made up of several different divisions, one of them being our Multifamily & Special Programs Division. There are four qualified personnel (pictured above) that answer questions, review applications and allocate funds for the two different programs within this division, Tax-Exempt Multifamily Bond Authority and Low Income Housing Tax Credits

How does THDA allocate Tax-Exempt Bond Authority?

THDA authorizes the allocation of tax-exempt bond authority to local issuers for multi-family developments. A local board or other authorized issuing entity in the area of the proposed development issues the bonds. Some of the development's units must be rented to persons of low income: a minimum of 20% of the units must be rented to persons at or below 50% of the area median income, or a minimum of 40% of the units must be rented to persons at or below 60% of area median income. Seventy-five percent of the units in the development must be occupied by persons at or below 115% of the areas median income. THDA reallocates its Multifamily Volume Cap set aside through a strict application process requiring projects to compete on a point system

Last year THDA made available \$30 million in Tax-Exempt Bond Authority for Multifamily developments to local issuers in 2000. During the two applications cycles, 11 applications were considered and ten were considered eligible and received reservations totaling \$32,600,000.

A History of Private Authority Bond Cap

One of the most important resources behind the financing of affordable housing in Tennessee is a resource more commonly known as "volume cap."

Volume cap is not actual money, but an authorization under federal tax law to issue tax-exempt bonds to finance both public and private benefits like housing. Private activity bonds may be used to finance single and multifamily housing, industrial developments, solid waste facilities, student loans and certain other exempt facilities.

Volume cap is allocated to states based on population. Since 1986, each state has received \$50 per capita or \$150 million, whichever is greater, however Congress has passed new legislation as of December of 2000 that increases the per capita to \$62.50 in 2001 and \$75 per capita in 2002.

What are Low Income Housing Tax Credits and how do they work?

The Low-Income Housing Tax Credit supports the development of low income housing through a credit against federal income tax liability each year for 10 years for owners and investors. The amount of tax credits is based on the reasonable cost of development and the number of qualified low-income units. The tax credit rate is approximately 4% for acquisition costs, 9% for rehabilitation and new construction costs, but only 4% if the development has federal subsidies or tax-exempt financing.

A History of the Per Capita Cap

Congress created the Housing Credit in 1986 because constructing and rehabilitating apartments cost too much to rent at rates low-income families can afford.

(continued on page 4)

Congressional Changes Sought

owner payments to make new mortgages to qualified purchasers. For no clear reason the 1988 law requires that the payments be used to retire the bonds that were used to finance the mortgages after those bonds have been outstanding for more than ten years. This is true even though the original mortgages were financed

under the program volume cap Congress just increased. By 2002, this rule will have deprived states of more than \$8 billion in mortgage authority since 1988. During 2000 alone Tennessee lost \$32.2 million that could have been used to finance more than 400 new low to moderate-income family mortgages, but instead

used to repurchase bonds.

Purchase Price Limits.

Federal law limits MRB financing to homes costing 90 percent or less of the median purchase price in the area. The problem is that the Treasury Department, which is required to issue new purchase price limits annually has not done so since 1994. The effect is that no home can be financed under the MRB program, which costs more than 90 percent of what homes have cost for a long time. Replacing the present unworkable limits on the price of the homes these mortgages can finance with simple, more effective limits would allow for more purchasing power. The answer is to replace the present limits set in Washington with a simple formula limiting the purchase price of MRB-financed homes to three and a half times the qualifying income under the program.

Rural Housing Credit. The way the housing credit program was written 15 years ago, apartments financed under it could rent for no more than 30 percent of incomes measured by reference to the area median income. In many areas, especially in rural areas, rents provided by this formula are simply too low to make apartment construction financially feasible. The answer is to use area or statewide median income, whichever is greater, in computing income and rent limits under this program.

THDA is not alone in its support of these three issues. The National Council for State Housing Agencies and other state finance agencies across the nation are in need of these long overdue changes. With these changes THDA and other housing finance agencies can develop stronger communities by providing an opportunity for more affordable housing. Board Members and staff will be asking Congress to support affordable housing and by supporting these issues.

(continued from page 3)

Multifamily & Special Programs

Every year, 100,000 low-cost apartments—more than the Housing Credit can replace—are demolished, abandoned, or converted to market rate use. Well-built and well-kept apartments help stabilize neighborhoods by improving housing quality and supply. The Housing Credit induces about \$7 billion of private investment each year to produce approximately 70,000 apartments with rents affordable to low income families and the elderly for at least 15 years. The need for housing assistance is so great that Credit applications exceed supply by more than three to one in most states.

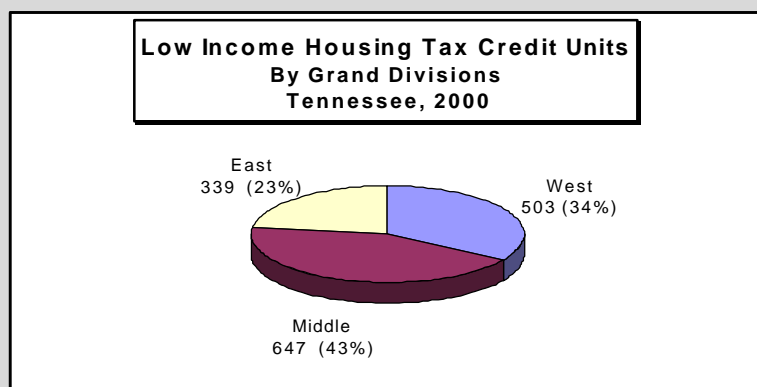
Housing Credit apartments cannot be rented to anyone whose income by family size exceeds 60% of area median income. In its extensive and overwhelmingly positive study of the Credit in 1997, the General Accounting Office found that average Housing Credit apartment renters earn only 37% of area median income. Many earn less than 30%.

LIHTC rental housing is developed all across the state, which until this year has been based on \$1.25 per capita. However, Congress has increased the per capita cap to \$1.50 for 2001 and \$1.75 for 2002

THDA's Recap of 2000

THDA's 2000 LIHTC application cycle has been completed; we received 53 applications prior to the March 24, 2000 deadline with 21 applicants and one partial receiving reservations for Credits. This reserved all of Tennessee's total credit ceiling of \$7,398,940, which was available for 2000.

For a recap of the distribution of the 2000 LIHTC, please see graph.



For more information regarding our Multifamily & Special Programs Division log onto our website at www.state.tn.us/thda.

The Grants Forum at THDA



Hilltop Manor Under Construction

Look at what HOME funds are doing for the elderly in Cannon County.

As a result of funding from THDA, HUD and Federal Home

Loan Bank, The Upper Cumberland District will have a new low-income elderly housing complex.

The \$1.5 million independent living facility will overlook the

mountains and valleys of Woodbury in Cannon County and derives its name from the view.

The Hilltop Manor application was completed and \$320,934 of HOME funds were awarded to The Upper Cumberland Development District, who will be responsible for the oversight and management of the 19-unit facility when it is finished in the Summer of 2001.

Eligible residents must be classified at low and very low-income levels and each unit must have at least one person of the age of 62 or older.

"We at the Development District are excited about the housing opportunities that Hilltop Manor offers our low-income elderly. It is the cooperative efforts of many people who have made this concept a reality. We are grateful for the funding partnership with HUD, THDA and Federal Home Loan Bank," said Wendy Askins, Executive Director of The Upper Cumberland Development District. "This project has also been strongly supported by the County Executive Dale Bush, along with the Woodbury Housing Authority."

Lets Get The Lead Out

co-written by Craig Stevens

The Tennessee Housing Development Agency (THDA) and the Department of Housing and Urban Development (HUD) are working together to remove lead-based paint hazards from federally-funded housing units across the state.

Lead poisoning is the number one health hazard to Tennessee's children under the age of six. According to the Center for Disease Control and Prevention, lead poisoning affects an estimated 890,000 preschoolers, nationwide. That means 4.4% of children aged 1 to 5 have too much lead in their bodies.

Over the past 20 years, childhood lead poisoning declined dramatically in the United States due to limits on lead in gasoline, paint, food cans, and other consumer products. The agencies hope to accelerate the reduction of poisoning incidents by diminishing the levels of lead-based paint hazards in homes receiving federal funding of any kind. Since changes went into effect on September 15, 2000 the impact has been far-reaching--affecting pre 1978 homes and causing an increase in project costs.

THDA is committed to environmental justice in the promotion of safe, decent, and affordable housing opportunities for all the citizens of our state. It is with this commitment in mind that THDA is implementing the second phase of HUD's lead-based paint policies for activities funded under THDA's HOME and Section 8 Programs. The new regulations take into account the latest scientific understanding of childhood lead poisoning and significantly increases the quality of testing and home maintenance, repair or rehabilitation work that must be performed in a lead-safe manner.

Currently the Tennessee Environment and Conservation Department is operating a certification program for lead-based paint professionals in conjunction with the Environmental Protection Agency (EPA). For more information contact Adrienne White at 800-771-5323 or at www.tdec.net/swm/leadpaint.

Section 8 Rental Assistance Division Branching Out

The Section 8 Rental Assistance Division of the Tennessee Housing Development Agency (THDA) has branched out into Unicoi County as of January 2001.

"We discovered that Unicoi County did not have access to a Voucher Program," said Don Harris, Director of the Section 8 Rental Assistance Division.

Once approved by HUD, Don Harris met with Paul Monk, County Executive, Russell Brack, Mayor and Lori Hendren, Director of Erwin Housing Authority (EHA) in November of last year

and agreed on an implementation plan for voucher assistance.

"We are excited about working with THDA. Having a voucher program will provide us with the opportunity to serve more of the low-income citizens in Unicoi county," said Lori Hendren Director of EHA.

Our Knoxville Field Office will be issuing the vouchers to Unicoi County and we expect to issue approximately 50 during this month.

For more information on THDA's Section 8 Rental Assistance Program log onto our web site at www.state.tn.us/thda or contact Don Harris at 615-741-4980.

Hosanna

(CONTINUED FROM PAGE 2)

Due to budget cuts no funds are currently dedicated to the HOUSE Program, however the HOME Program is available through THDA's Community Programs Division. For more information contact our office at 615-741-2400 or log onto our web site at www.state.tn.us/thda

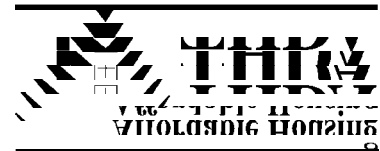
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